

CO-INVESTMENT IN STARTUPS WITH VENTURE CAPITAL ORGANIZATIONS AND ANGEL INVESTORS

1. BACKGROUND

This call is part of the Uruguay Innovation Hub Program (hereinafter the "Program"), whose purpose is to promote science, technology and innovation projects that will enable the country to move towards a knowledge-based economy and society, becoming a world-class innovation center that attracts international investment, increases the country's potential economic growth rate and generates quality jobs for its people.

2. PURPOSE

The purpose of this call is to convene interested parties to form a registry of Venture Capital Organizations and Angel Investors of Uruguay Innovation Hub (hereinafter "UIH"). Registered investors will have the opportunity to submit co-investment proposals in technology-based or early-stage science-technology startups with technical validation, minimum viable product/functional prototype and demonstrable traction. In the case of the scientific-technological sector, eligible startups must have validations performed at least at the proof-of-concept level.

UIH prioritized areas are: (a) Advanced digital technologies: addressing the current challenges presented by new technologies such as, for example, Artificial Intelligence, Robotics, Internet of Things, Cybersecurity, Fintech and Blockchain; (b) Green technologies: including renewable energy, circular economy and new materials, biochemicals and biofuels, electro mobility and green hydrogen, among others; (c) Biotechnology in its different orientations: towards human and animal health, as well as food and other applications.

3. TYPES OF INVESTORS

The call for expressions of interest is aimed at national or foreign venture capital organizations and angel investors, with a track record in startup financing,

demonstrated financial capacity, the necessary skills to follow up on each investment, and demonstrable success stories.

The call will have two types of investors:

a) Venture Capital Organizations

"**Venture Capital Organizations**" shall be understood as those legal entities, funds or trusts, national or foreign, public, private or mixed, whose purpose is to contribute their own- or third-party resources to a group of startups, in exchange for a participation or eventual future shareholding. Likewise, these Venture Capital Organizations should offer mentoring, networking and support to accelerate the development of the startups. In this sense, registered Venture Capital Organizations are expected to have teams specialized in legal issues, accounting, finance, technology, management, strategic marketing, as well as local and international relationship networks that allow them to add value to the startup beyond the monetary investment.

The creation of a fund whose investment thesis is aligned with the prioritized areas of the Program is required. Target size should be of at least USD 10 million, where at least 25% of the total capital has already been committed; or to have made at least 10 investments in technology-based or scientific-technological startups for an aggregate amount of no less than USD 1,000,000.

b) Angel Investors

"**Angel Investor**" shall mean any individual, national or foreign, who makes investments in exchange for a participation or eventual future shareholding in startups, and who in turn offers mentoring, contact networks and support that provide value beyond the monetary investment. They are expected to have the profile and technical capacity to provide adequate support to startups in early stages of development, as well as local and international networks that allow them to add value to the venture beyond monetary investment.

Having invested in at least 3 technology-based or scientific-technological startups, for an aggregate amount of not less than USD 200,000 in the last 3 years is a requirement.

4. INVESTORS' ELIGIBILITY

Eligible investors to be included in the registry of Venture Capital Organizations and Angel Investors of UIH, as well as their partners and representatives, employees and beneficial owners, as applicable, must meet the following conditions¹:

- a) No conflicts of interest at the time of registration and during the execution of the co-investment with UIH. This shall occur upon the objective, actual or potential existence of a conflicting situation, not necessarily of an economic or patrimonial nature, but connected to a causal link between a particular interest of the Investor, UIH and the startup beneficiary of the Program.

In this sense, the following persons will not be able to register in the registry:

- (i) Politically exposed persons ("PEP")²;
- (ii) Public employees linked to the Ministries or personnel linked to public or parastatal institutions that are part of this Program;
- (iii) Persons related to UIH team members or potential startups planning to participate in the program;
- (iv) Companies supplying goods or services to a prospective startup planning to participate in the Program.

¹ **(Beneficial owner)** - According to the definition provided by article 1 of Decree 166/017, a beneficial owner is defined as the individual who, directly or indirectly, holds at least **15% (fifteen percent)** of the paid-in capital or its equivalent, or of the voting rights, or who by other means exercises ultimate control over an entity, being considered as such a legal entity, a trust, an investment fund or any other trust or legal structure, with or without legal status.

Ultimate control is defined as control exercised directly or indirectly through a chain of ownership or any other means of control. In the case of trusts or investment funds not supervised by the Central Bank of Uruguay, the individual/s who comply with the conditions set forth in the preceding paragraphs in relation to the settlor, trustee and beneficiary, or the managing entities, as the case may be, must be identified. The same shall apply in the case of the foundations and civil associations in relation to the members of the Administration Committee or of the Directors' Committee or of the corresponding management body.

² **(PEP)**: In accordance with the provisions of art. 20 of law 19574 and articles 13 and 14 of Decree 379/018 politically exposed persons ("PEP") are defined as those persons, their spouse, partner and relatives by consanguinity or affinity up to the second degree, as well as their associates when these are public knowledge and those who carry out operations on their behalf; who perform or have performed in the last five years important public functions in the country or abroad, such as: Heads of State or Government, senior politicians, high-ranking government, judicial or military officials, representatives and senators of the legislative branch, prominent leaders of political parties, directors and senior executives of state-owned companies and other public entities. Politically exposed persons are also understood as those who perform or have performed in the last five years a senior function in a public international law organization, such as: members of senior management, directors, deputy directors, board members or equivalent functions.

The Program Steering Committee reserves the discretionary right to analyze the admissibility of these requests based on principles of timeliness, transparency and good faith.

In the event of doubt, Investors in the process of registration/registered shall have the obligation to inform and request authorization from UIH prior to performing any act or omission that may result in a conflict-of-interest situation.

- b) To be in compliance with its tax obligations in the countries where the investor is a tax resident.
- c) Not to be involved in a bankruptcy, dissolution, liquidation or precautionary measure that prevents it from conducting its business both in Uruguay and abroad.
- d) Not being sanctioned or subject to administrative or judicial investigation for corruption, terrorism, money laundering or any of the preceding crimes provided for in Article 34 of Law 19,547 or being on the international lists of the United Nations Security Council or OFAC. If during the registration process or subsequently it is detected that the investor is subject to an administrative or judicial investigation in Uruguay or abroad, the Steering Committee shall evaluate the circumstances of the case in order to review its acceptance or disassociation.
- e) The eligible fund and its manager must not be incorporated in a Low or No Tax Jurisdiction according to the list published by the Uruguayan Tax Authority (DGI) or in a jurisdiction classified as non-cooperative by the Financial Action Task Force.
- f) Eligible investors do not invest in illicit (under Uruguayan or the country where the venture is located) or immoral ventures.

5. ASSESSMENT CRITERIA

Assessment criteria will be the following:

- a) Professional and personal background of the eligible investor;
- b) Success stories;

- c) Investment thesis and strategy;
- d) Linkages within the national and international ecosystems;
- e) Financial capacity of the eligible investor;

6. CO-INVESTMENT IN STARTUPS

Investors registered in the register of Venture Capital Organizations and Angel Investors will have the benefit of co-investing in the startups together with UIH.

The conditions of the contribution made by the private investor to the startup will be subject to agreement between both parties, and this aspect will be evaluated at the time of selecting the projects to be financed.

7. DUTIES OF ELIGIBLE INVESTORS

Selected eligible investors will be able to submit proposals for co-investment in startups and participate in the selection mechanisms. To be eligible for co-investment, investors must:

- a) Conduct the due diligence process (legal, tax and financial audit) of the same, as well as verify compliance with the eligibility conditions.
- b) Provide technical assistance to entrepreneurs if necessary.
- c) Provide UIH with all the information requested regarding the startups invested, which will allow a correct control and effective follow-up of the execution of the funds and the fulfillment of all the requirements of these terms.
- d) Mention the support of UIH in all marketing and communication of the co-investments made in the fund.
- e) Keep and maintain at the disposal of the UIH all the financial information pertaining to the investments.

8. INVESTMENT INSTRUMENT

UIH will invest in the startups benefiting from the Program with a convertible note instrument (hereinafter "**Convertible Note**") that will have the following characteristics:

a) **Operational aspects**

The Convertible Note will operate as a capitalizable loan, whereby UIH will deliver to the startup a sum of money for a period of time (hereinafter the "**Maturity Date**") and at a specified interest rate whose repayment or exchange for shares will be conditioned upon the occurrence of a Liquidity Event.

In this sense, if the Liquidity Event occurs before the maturity of the term, the amount borrowed with interest may be converted into shares based on the discount rate or the Valuation Cap and subject to the conditions set forth in the instrument. On the other hand, if the Maturity Date expires without a Liquidity Event having occurred, UIH may at its discretion: (i) request the repayment of the amount borrowed with interest; (ii) extend the maturity date; or (iii) voluntarily convert the debt into shares of the startup; all in accordance with the terms and conditions set forth in the Convertible Note.

Together with the Convertible Note, UIH will enter into a supplemental Investment Agreement with the co-investor and the founders to ensure compliance with the terms of the Program and to grant certain rights to the parties.

b) **Ticket**

Funding amounts will range from USD 75,000 to a maximum of USD 500,000 per startup benefiting from the Program.

c) **"1:1" ratio with co-investors**

Startups benefiting from the Program may receive contributions in a ratio of up to "1:1" (one to one) between UIH and an eligible investor according to the ceilings mentioned in paragraph b. This means that UIH's maximum investment amount may be the amount invested by the private investor.

For the purpose of calculating the funds to be contributed by the investor, only cash investments will be taken into account, and investments in kind related to mentoring and related expenses cannot be included for this purpose.

UIH may co-invest in more than one project with the same Venture Capital Organization or Angel Investor or eventually increase the financing funds for each particular project up to the maximum provided for in paragraph b). This decision will be subject to program approval.

d) Interest rate

The interest rate will be the 5-year US risk-free rate + Country Risk + 100 basis points + VAT.

e) Maturity Date

The Maturity Date will be 2 years which may be extended for periods of one year at the option of UIH in agreement with the startup.

f) Valuation Cap

The Valuation Cap is the maximum valuation that will be given to the startup in the Convertible Note for conversion purposes upon the occurrence of a Liquidity Event.

The Valuation Cap for the Convertible Note will be provided by the co-investor who must have previously negotiated it with the entrepreneurs and the startup. In no case shall the Valuation Cap be higher than the valuation cap defined by the co-investor in its investment instrument with the startup.

g) Discount rate

The Convertible Note will be held at a discount rate of 20% to the price per share paid by the investors in the priced round or transaction that constitutes the Liquidity Event.

For conversion purposes, in the event that the Convertible Note has a Valuation Cap and a Discount Rate, the mechanism that is most beneficial to the UIH will be applied, this being understood as the calculation that allows a greater number of shares at the time of conversion.

h) **Liquidity Event**

Some “**Liquidity Events**” may be:

(i) **Investment round**

Defined as a transaction or series of transactions in which the startup issues or transfers shares to one or more investors (hereinafter “**Priced Round**”) for a minimum amount defined in the Convertible Note. For purposes of the Convertible Note, the following shall not constitute Liquidity Events:

- Those investment rounds where capital is raised without a valuation of the startup (“**Unpriced Rounds**”), for example through convertible notes, SAFEs or similar instruments;
- Those Priced Rounds where capital is raised for a value which is less than the sum of the amount invested by UIH and the co-investor in the startup within the framework of the Program.

(ii) **Transfer of the company’s shares**

A transaction or series of transactions involving the transfer of more than 50% of the company's shares or the loss of control of the company by the founders.

(iii) **Sale of the company’s assets**

A transaction or series of transactions in which a substantial portion of the assets of the startup beneficiary of the Program are disposed of.

(iv) **Exit of the co-investor**

A transaction through which the co-investor, who has invested under the Program, disassociates himself from the beneficiary startup.

(v) **Public offering**

The entry of the beneficiary startup to the regime of public offering of its capital in any market under any type of modality.

It is the responsibility of the investors and the startups to communicate to UIH the occurrence of any Liquidity Event that is provided for in the Investment Agreement after the first disbursement by UIH has been executed.

In the event of the occurrence of the Liquidity Event set forth in (i) and (v) above, the conversion will be automatic.

In the event of the occurrence of any of the Liquidity Events set forth in items (ii) to (iv), the conversion shall not be automatic, but UIH shall have the right to choose between the conversion of the loan and its interest or to request a compensation equivalent to: (a) the return of double the amount borrowed, when the Convertible Note is for an amount greater than Indexed Units 2,000,000 under the terms set forth in article 2 paragraph E) of Law No. 18,212; or (b) the return of the amount borrowed plus a compensation equivalent to the maximum legal interest rate allowed, when the Convertible Note is for an amount less than Indexed Units 2,000,000 under the terms set forth in article 2 paragraph E) of Law No. 18,212.

In all those occasions in which UIH may opt for conversion and it is not possible to define a valuation of the company, because there is no "Priced Round" or a purchase price for its shares, UIH may opt between: (i) making the conversion based on the "**Reduced Valuation Cap**", which will be calculated by subtracting a specific percentage, which will be determined at the time the Convertible Note is executed; or (ii) making a valuation defined by a third party appointed in agreement with the startup, applying the discount rate provided in the note for purposes of determining the conversion price.

i) **Voluntary conversion option in the event of the maturity of the Convertible Note**

If the Maturity Date and its extensions expire before the occurrence of a Liquidity Event, UIH may recover its investment by requesting repayment of the loan with interest or voluntarily converting the debt into shares.

For the conversion of the debt into shares, valuation will be determined, at the option of the UIH: (i) based on the Reduced Valuation Cap or (ii) a valuation performed by a third party appointed by mutual agreement, on which the discount rate provided in the Convertible Note will be applied for purposes of determining the conversion price.

j) Preemptive rights in the event of liquidation

In the event that the company enters dissolution and liquidation proceedings or becomes insolvent, UIH will have preemptive rights over the founding partners with respect to the assets remaining in the liquidation for the reimbursement of its investment, all within the limits of the provisions of Law No. 18,387.

k) Early repayment

Subject to the approval of UIH, the startup beneficiary of the Program may, through a decision adopted by its management body, opt for the partial or total cancellation of the Convertible Note. For this purpose, the startup must notify such option to UIH at least sixty (60) calendar days prior to the proposed date of payment indicated in the notice. UIH will have full discretion to accept or reject the early repayment of the loan. UIH shall notify this decision to the startup. In the event that UIH does not issue a decision within the term of 60 days, UIH's silence will be deemed a rejection of the request for Early Repayment.

If a partial cancellation of the Convertible Note is accepted, the startup and UIH will enter into an addendum or amendment to the instrument to adjust the investment amount.

In the event of an early repayment, the startup shall: (a) repay the disbursed contributions plus interest accrued to date plus (b) an additional compensation equivalent to 15% of the total debt in force as of the date of notice. In no case may the final reimbursement exceed the maximum legal interest allowed under the provisions of Law 18,212.

In the event any of the Liquidity Events occur within 12 (twelve) months following the date on which the Early Repayment was executed, UIH shall be notified and shall be entitled to receive additional compensation.

l) Call option

The UIH will have the power to include within the Convertible Note or within other investment documents, call options in favor of the founders or the co-investor so that they may purchase the shares delivered by the startup in the event of a Liquidity Event. The call option price shall be the higher of:

(i) The value of the shares resulting from the valuation derived from the investment round or from a third party if applicable;

(ii) Twice the amount invested by UIH.

The Investment Agreement to be signed between the Program's participating parties will define the conditions and procedure for the exercise of the option.

m) Tag Along Right

In the event of a call option offer of the company by a third party, the founders shall be obliged to offer the buyer the shares that UIH would receive from the company for the conversion.

n) Disbursement

The investment will be made in the form of partial disbursements, subject to the fulfillment of measurable milestones according to each project's schedule.

9. STARTUPS ELIGIBILITY

Early-stage startups may apply as legal entities and must have an innovative product or service, a scalable business model, demonstrate high growth potential and have a highly qualified team. They must also have technical validation, minimum viable product/functional prototype and demonstrable traction.

In the case of the biotechnological sector, eligible startups must have validations performed at least at the proof-of-concept level.

In either case, in order to apply for co-investment by UIH, the startup must prove the existence of an investment commitment by means of a letter of endorsement according to the model provided for such purposes by a private investor that is part of the UIH's registry of eligible investors and has previously undergone a due diligence process.

Startups should be aligned with the prioritized areas of UIH.

It is expected that:

a) The entrepreneurial team holds at least 51% of the company's shares.

- b) The startup and its partners are free of liens.
- c) The existence of an investment or a commitment to invest in the startup by one or more private investors is evidenced by a letter of intent or similar document and accreditation from the UIH Investor Registry.
- d) The entrepreneurial team does not present conflicts of interest in the co-investment to be carried out with UIH.
- e) None of the partners, their management team or employees is sanctioned for corruption, terrorism, money laundering or is on the international lists of the United Nations Security Council or OFAC; in case of being subject to any investigation for any of the above causes or for any criminal cause, such circumstance must be disclosed, which will be evaluated by the Board of Directors.
- f) The startup is not incorporated in a BONT jurisdiction.
- g) The startup does not carry out illegal activities (under Uruguayan or national regulations).

Also, in order to know the details of the startup, information will be requested regarding:

1. Background of the startup and the entrepreneurial team
2. Business model and scalability
3. Alignment with prioritized areas and spillover into the national ecosystem
4. Proposed investment plan
5. Expected outcomes of project execution

9.1 URUGUAY CONDITION

In addition to the eligibility requirements, the selected startup must include Uruguay as part of its growth strategy. For such purposes, the ventures that receive financing from the Program must comply with the following conditions (hereinafter the "**Uruguay Condition**"):

- h) To have a local business company in the form of a corporation (*Sociedad Anónima*) with nominative shares or a Simplified Joint Stock Company (*Sociedad por Acciones Simplificada*).
- i) Have a local bank account.
- j) At least one member of the founding team must have tax residence in Uruguay;
- k) Relevant employment generation in Uruguay: at least three talents hired in Uruguay (where at least one hire must be a decision maker);
- l) In the case of a science-technology based startup, its research and development (R&D) activities must be conducted in a laboratory located in Uruguay;
- m) Meet at least 1 of the following conditions:
 - (i) At least 30% of the turnover of the company and or subsidiaries made from Uruguay.
 - (ii) At least 50% of the expenses incurred with the investment must be disbursed to local suppliers.
 - (iii) Proof of filing a patent application related to the project, evidencing spillover to Uruguay, together with a road map of the patenting strategy.

The entrepreneurs will agree with UIH on a schedule evidencing compliance with the Uruguay Condition, which UIH will control at the time of making the disbursements foreseen in the Convertible Note.

The following shall be conditions precedent to the first disbursement:

- a) At least one member of the founding team must have legal residence in Uruguay.
- b) To have a local corporation (*Sociedad Anónima*) with nominative shares or a Simplified Joint Stock Company (*Sociedad por Acciones Simplificada*).
- c) Have a local bank account.

- d) That the local company has at least one person in its payroll.
- e) In the case of a science-technology based startup, its research and development (R&D) activities must be conducted in a laboratory located in Uruguay.
- f) That the disbursement made by the co-investor of the committed contribution is reliably evidenced before the UIH.

It will be a condition for subsequent disbursements that the venture evidences compliance with the Uruguay Condition according to the schedule previously agreed with the Program.

10. INVESTMENT AGREEMENT

The UIH investment will be conditioned to the execution of an Investment Agreement between the co-investor, the startup beneficiary of the Program and the Uruguay Innovation Hub Trust, which will stipulate the rights and obligations of each of the parties. The amount of the UIH investment will be disbursed directly to the startup.

The startup beneficiary of the Program must have a corporation (*Sociedad Anónima*) with nominative shares or a Simplified Joint Stock Company (*Sociedad por Acciones Simplificada*) as well as a local bank account at the time of signing the Investment Agreement.

11. APPLICATION PROCESS

This call operates under the open window modality, subject to availability of funds.

Eligible investors must submit an expression of interest according to an application form that will be provided for such purposes.

Once the form has been filed, it will be reviewed to ensure that it meets all the necessary requirements to begin the assessment process.

12. ASSESSMENT

The expressions of interest will be assessed by an Assessment and Follow-up Committee (hereinafter referred to as the "CES"), which shall be comprised of

national and international experts. At the request of the CES, eligible investors may be invited to make a presentation of their proposal.

The Program Steering Committee ultimately approves the eligible investors that will make up the registry.

13. FORMALIZATION

Those who have been approved to be part of the registry of eligible investors will be able to submit proposals for co-investment in startups.³

At such time as eligible investors submit a co-investment proposal in a startup and it is approved, UIH will execute an Investment Agreement with the private investor(s) and the startup, based on the approved co-investment proposals.

³ Following admission to the registry, the angel investor or venture capital organization will proceed to sign a framework agreement with the UIH program Trustee. This agreement will outline general responsibilities and address compliance requirements stipulated by the Trustee.